



Summary of the December 16, 2015 Board of Directors Meeting

The following individuals were present at the meeting:

Directors and Alternates, Acting as Directors:

- Gayle Smith, Administrator, U.S. Agency for International Development (USAID) serving as Chair;
- Heather Higginbottom (attending for John Kerry, Secretary of State, Chair);
- Sarah Bloom Raskin (attending for Jacob Lew, Secretary of the Treasury, Vice Chair);
- Behnaz Kibria, (attending for Ambassador Michael Froman, United States Trade Representative (USTR));
- Dana Hyde, Chief Executive Officer, MCC;
- Mark Green, Private Sector Board Member;
- Morton Halperin, Private Sector Board Member; and
- Susan McCue, Private Sector Board Member.

Invited Guests:

- Mary Beth Goodman, Special Assistant to the President and Senior Director, National Security Council (NSC); and
- Fouad Saad, Office of Management and Budget

Other Participants:

1. Lisa Kubiske (State +1)
2. Alexia Latortue (Treasury +1)
3. Melissa Williams (USAID +1)
4. Mary Ryckman (USTR +1)
5. Nancy Lee (MCC +1)
6. Chris Tuttle (Amb. Green +1)
7. Sarah Lucas (Ms. McCue +1)
8. Paula Tufro (NSC +1)
9. William Cole (OMB)
10. Sait Mboob (USAID)
11. Rachel Fredman (Treasury)
12. Daniella Ballou-Aares (State)
13. Roland DeMarcellus (State)

14. Etienne LeBailly (State)
15. Ann Calvaresi-Barr (USAID/OIG)
16. Kamran Khan (MCC)
17. Matthew Bohn (MCC)
18. Paul Weinberger (MCC)
19. Maame Ewusi-Mensah Frimpong (MCC)
20. Beth Tritter (MCC)
21. Thomas G. Hohenthanner (MCC)
22. Parita Shah (MCC)
23. Tom Kelly (MCC)
24. Jim Blades (MCC)
25. Mahmoud Bah (MCC)
26. Laura Leussing (MCC)
27. Jim Mazzearella (MCC)
28. Lorelle Atkinson (MCC)
29. Kyeh Kim (MCC)
30. Fatema Sumar (MCC)
31. Cindy Huang (MCC)
32. Chris Maloney (MCC)
33. Chris Dunn (MCC)
34. Jonathan Bloom (MCC)
35. James Gerard (MCC)
36. Cristina Killingsworth (MCC)
37. Guylain Ngeleza (MCC)
38. Charles Morrison (MCC)
39. Pamela Woodard (MCC)

1. The meeting was called to order at 10:01 a.m. by Ms. Smith acting as Chair. The Board approved minutes from the September 17, 2015, Board meeting.
2. CEO Update. Ms. Hyde provided updates on compact operations and administrative matters:
 - A. New Compacts: MCC signed the compact with Liberia in September 2015 for the rehabilitation of the Mount Coffee Hydroelectric Facility. MCC signed the compact with Morocco in November. Also in November, Beth Tritter signed the \$44 million threshold program with Sierra Leone.
 - B. Compacts under Development: Niger's compact focusing on water access for farmers and herders remains a priority and will be presented at the June 2016 Board meeting. Political unrest in Nepal is impacting its compact development; however, progress continues and the draft proposals are still expected in December 2015. Constraints analyses have been completed for both Mongolia and the Philippines and compacts are slated for FY 2017. In Guatemala, political turmoil has hampered MCC's threshold program implementation. However, there are positive sign and MCC will continue to assess the situation after a new government takes office in January 2016.
 - C. Compact Closeouts: MCC will close out compacts with the Philippines and Jordan in 2016. Stakeholders are building support for the second Compact in the Philippines. Expansion under the Jordan compact of the As Samra Wastewater Treatment Plant, which treats more than 70% of Jordan's wastewater and benefits three million Jordanians, was inaugurated in October 2015.
 - D. Partnerships: To fulfill MCC's priority of proactive engagement with businesses, MCC

hosted roadshows for increasing private sector investment in El Salvador. MCC partnered with the U.S. Department of Commerce, Power Africa and the Corporate Council on Africa to kick off the Ghana and Benin Investment Opportunity Roadshow.

E. Legislation: The House Foreign Affairs Committee passed the AGOA Enhancement Act which includes concurrent compact authority. Legislation providing for concurrent compact authority was also introduced by members of the Senate Foreign Relations Committee. MCC's funding increased from \$900 million to \$901 million. A House Bill provision requires GAO review of the practice of funding compacts with prior year funds.

F. Administration: MCC received an unmodified, clean audit opinion for the fifth year in a row and, for the first time, all material weaknesses in MCC's internal controls have been eliminated. All MCC staff are in place at the new office space. The move reduces MCC's footprint, saves \$20 million over the course of the lease, has consolidated space and created an open floorplan supporting a collaborative environment for staff.

3. FY 2016 Selection Process.

Five themes on selection were highlighted for the Board by Ms. Hyde, Ms. Tritter and Mr. Maloney: (1) persistence of the MCC effect, (2) importance of accountability, (3) a higher bar for second compacts, (4) opportunities for regional investments, and (5) considerations related to the upper reach of MCC's income threshold. Agreement was sought from the Board for a higher standard, to be incorporated in the September FY 2016 Selection Criteria and Methodology Report (SCMR), to guide selection of candidate countries that have a significant possibility of graduation to UMIC status. Ms. Tritter identified three factors that link directly to the SCMR: (1) policy performance, (2) opportunity to reduce poverty and generate economic growth, and (3) funding availability. Ambassador Green added two others: strategic value of a partnership as informed by the State Department, and large policy reform for UMIC countries.

The necessity for a country to first meet the scorecard was emphasized by Mr. Halperin, who encouraged consultation with Congressional representatives on their view of using strategic value as a consideration. He also encouraged MCC's continuing dialogue in poverty assessment and measurement, perhaps urging Congress to consider changes. Ms. Hyde noted shortcomings in use of gross national income (GNI) as a measure of poverty and specified two aspects of the discussion: MCC's legal parameters related to income brackets, and whether the GNI-defined candidate pool is the best measure to assess poverty.

Ms. Smith noted high levels of poverty in emerging-market countries, the possible benefit of institution by these countries of their own policy reforms in the area of poverty, and agreement that strategic value should be considered but only with regard to qualified countries. Deputy Secretary Raskin recommended unbundling of poverty metrics and inclusion of economic resilience measures. Deputy Secretary Higginbottom agreed these compacts should look different as do second compacts and noted the requirement for legislative action to change poverty metrics. After engagement with the outside community and gathering additional information around the use of median household income, MCC will produce recommendations on poverty assessment for the Board at its March or June 2016 meeting. In response to Ambassador Green's request, MCC will also prepare a policy framework related to countries at the upper band of LMIC status for Board approval.

A. Countries for New Eligibility Consideration.

1. Compact Eligibility.

Côte d'Ivoire, Kosovo and Senegal were recommended for compact eligibility selection. Ms. Lee reported MCC's continued exploration of possible regional investments. Three operational approaches previously described by the Board are contemplated: (1) dual compacts which implement regional and domestic investments within one country, (2) regional investment-only compacts which focus strictly on cross-border investments, and (3) regional investments which allow groups of countries to collaborate in the formulation of proposed cross-border investment, and then compete for MCC investment resources. MCC needs legal authority to create concurrent compacts, and is working with Congress on legislation. Bipartisan support was reported, provided the country selection process and MCC's model are maintained.

Exploration of the dual-compact approach in Senegal and Côte d'Ivoire is recommended as the initial step for three reasons: (1) Africa's gaps in the provision of utility services, (2) the proposed countries are strong, motivated partners, and (3) there already exist well-developed plans for West African power pools and transport corridors.

2. Threshold Program Eligibility.

Ms. Tritter presented MCC's view of threshold programs as a gateway for promising candidate countries to actively engage with MCC, with three underlying objectives: (1) threshold programs boost the MCC effect, (2) the program supports and challenges partner countries to identify and implement policy and institutional reforms critical to economic growth, and (3) the program allows MCC to assess the partnership and opportunities for MCC to work with a country through a compact. MCC staff will review its list of potential threshold partners and formulate concrete recommendations for consideration by the Board for making the program approach more nimble and responsive to countries' variable contexts, and in management and implementation. Ms. Tritter advised the Board that MCC is looking for an upward trajectory and real will on the part of countries awarded threshold programs. Two countries, Sri Lanka and Togo, are recommended for threshold program eligibility selection.

Ambassador Green encouraged MCC to focus in its threshold programs on reducing corruption while increasing democratic liberties. These are often the hardest eligibility criteria to clear and suggested the Board revisit the program provisions. In response to Ms. McCue's request for the average of threshold countries becoming compact countries, the Board was reminded of significant revision of the program policy in 2012 and advised that the answer is dependent upon the model used. Mr. Halperin suggested utilization of different criteria for

threshold countries which MCC deems likely to graduate to compact status and those countries which need help on corruption and democracy. MCC staff will return at the next meeting to provide clarity to issues raised.

B. Countries for Reselection Consideration.

Mr. Maloney reported that all six countries currently in compact development – Lesotho, Mongolia, Nepal, Niger, the Philippines, and Tanzania – are passing their scorecards. Reselection of Nepal, Niger, and the Philippines was recommended to maintain their eligibility for FY 2016 funding. It was also noted that Mongolia has transitioned from LMIC to UMIC status over the past year. The Board was advised that Mongolia's democracy scores are in the top three of MCC's partners, serious development challenges remain for the opportunity to reduce poverty, economic growth is volatile due to reliance on commodity trade and mining, struggles to find an inclusive growth path and weakness in institutional capacity. MCC has communicated to the Mongolian government that MCC expects a significant contribution by Mongolia to the compact.

C. India.

Following the Board's resolution for MCC to explore a strategic partnership with India, MCC has seen a series of engagements directly with the Indian government, interagency collaboration to build upon these engagements, and stakeholder outreach regarding what a potential partnership with India might look like. Conclusions formed as a result are that: (1) India is interested in exploring partnership with MCC, especially in infrastructure, (2) any partnership will be regional in nature, and (3) engagement with India will be different in form from traditional MCC programs. While the original impetus for partnership related to a transformative energy opportunity for Nepal, dynamics have become more challenging over the course of 2015. The Board should also consider a larger geostrategic conversation, especially around Sri Lanka. MCC staff will consult individually with Board members as it thinks about the direction of the partnership. A Board resolution to continue exploring partnership with India was recommended.

4. Morocco Democratic Rights.

Ms. Hyde reminded the Board that Morocco's second compact was approved in September and signed in November 2015. Recent events have raised concerns around Morocco's commitment to protecting civil liberties, the obscuring of reform progress that the country continues to make, and MCC's hard hurdle on democratic rights. Morocco's head of government acknowledged the issues and MCC believes Morocco intends to follow up with Freedom House, the producer of the democratic rights indicator scores.

Noting that Morocco is demonstrating a downward trend in democratic rights and an increased closing of civil space, Mr. Halperin expressed concern over Morocco's passing of the two democracy hurdles and asked that the Board be informed if a country under consideration for

compact fails either of these hurdles. He further asked that MCC make clear to the government that the failure of the index will have serious consequences for the compact. Finally, he encouraged the Board to read about the human rights dialog in Morocco, and focus on what can be done in countries where the U.S. has possibilities of influence. Deputy Secretary Higginbottom stated great concern of the Secretary and Department of State over the shrinking of civil space. Ambassador Green questioned the measures of the democracy hurdles, noting questionable results with some countries passing the hurdle that most would not consider to be democracies, and suggested the democracy hurdle be recast to address the larger trend of the rise of authoritarian measures being adopted that significantly affect the enabling environment for civil society.

5. Audit Committee Report.

Ms. McCue reported that, for the first time since MCC's inception, there were no material weaknesses found in its annual financial audit. The audit was clean despite some findings of significant deficiency which have been appropriately addressed.

6. Executive Session.

Following Board votes, Côte d'Ivoire, Kosovo and Senegal were unanimously selected for compact assistance; Nepal, Niger and the Philippines were unanimously reselected for compact assistance; and, Sri Lanka and Togo were unanimously selected for threshold programs. The Board also voted unanimously to affirm the eligibility of Mongolia for FY 2015, and reaffirmed support for MCC exploration of partnership with India. The Board unanimously adopted a resolution on development and consideration of selection criteria for countries that may graduate from LMIC status.

Ms. Hyde thanked Mr. Halperin for his service on the Board during his first term, which is ending, and expressed confidence that he would soon rejoin the Board for a second term. She also announced the imminent departure of, and expressed appreciation to, MCC General Counsel Maame Frimpong. The MCC financial and management team was thanked for their support in achieving a clean audit.

The meeting adjourned at 11:38 a.m.